

## Message Text

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ACTION IO-10

INFO OCT-01 CIAE-00 CU-02 INR-07 NSAE-00 USIA-06 AF-06

ARA-06 EA-06 EUR-12 NEA-09 ISO-00 ABF-01 OMB-01

TRSE-00 L-02 SS-15 NSC-05 /089 W  
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P 080941Z APR 75  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC PRIORITY 8218

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NESCO

E.O. 11652: N/A  
TAGS: AORG, PORG, UNESCO  
SUBJECT: BUDGETARY AND FINANCIAL OUTLOOK OF UNESCO  
AT THE END OF FIRST QUARTER 1975.

1. SUMMARY. EARLY PAYMENT OF 1975 CONTRIBUTIONS IN PART OR WHOLE BY SOME MEMBER STATES INCLUDING CHINA, UK, CANADA AND FRANCE, HAS PRECLUDED IMMEDIATE CASH FLOW PROBLEMS FOR UNESCO. MOREOVER, SEVERE AUSTERITY MEASURES HAVE BEEN ADOPTED TO CONTEND WITH DECLINE IN DOLLAR EXCHANGE RATE; WHICH AS OF MARCH 1 WOULD AMOUNT TO A 23 PER CENT CUTBACK IN PROGRAM. HOWEVER, NON-PAYMENT OF US CONTRIBUTION, COMBINED WITH INFLATION AND AND MOST ESPECIALLY IF DOLLAR EXCHANGE RATE DOES NOT IMPROVE, WILL CREATE SERIOUS FINANCIAL DIFFICULTIES FOR UNESCO BY LATE 1975/EARLY 1976. REQUESTS FOR NON-INTEREST BEARING LOANS FROM MEMBER STATES OR FOR ADVANCE PAYMENT ON 1976 DUES WOULD PROBABLY BE NECESSARY AND READILY FORTHCOMING. END SUMMARY.

2. ACCORDING TO INFORMATION FROM DEPUTY DIRECTOR GENERAL FOBES, BUDGET BUREAU DIRECTOR T.C. YOUNG, AND FINANCIAL COMPTROLLER CHAKOUR, THE FINANCIAL SITUATION

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OF UNESCO AS OF APRIL 1 IS SOMEWHAT BETTER THAN HAD

BEEN ANTICIPATED. CHAKOUR TOLD DELOFF THAT 18.4 PER CENT OF MEMBER STATE CONTRIBUTIONS FOR 1975 HAD BEEN RECEIVED AS OF MARCH 31 IN COMPARISON TO 9.21 PER CENT RECEIVED IN SAME TIMEFRAME ONE YEAR AGO, I.E. ABOUT 14 MILLION DOLLARS HAS BEEN PAID OUT OF THE \$77.9 MILLION DUE THIS YEAR. MOST NOTABLY, THE CHINESE ASSESSED CONTRIBUTION OF ABOUT \$4 MILLION HAS BEEN PAID IN FULL, ALONG WITH CANADIAN, SWEDISH AND DANISH CONTRIBUTIONS, AS WELL AS THOSE OF SEVERAL ARAB STATES. IN ADDITION, USSR PAID ITS ARREARAGE FOR 1974, WHILE FRANCE, NETHERLANDS, UK, FINLAND, AUSTRIA, POLAND AND YUGOSLAVIA HAVE PAID SUBSTANTIAL PARTS OF THEIR 1975 ASSESSED CONTRIBUTIONS.

3. THE MAJOR PROBLEMS FACING THE ORGANIZATION, APART FROM THE PROSPECT OF NON-PAYMENT OF THE U.S. ASSESSED CONTRIBUTION, ARE: (A) DECLINE IN THE DOLLAR FROM THE 4.80 FF EXCHANGE RATE TO THE DOLLAR UPON WHICH THE 18 C/5 BUDGET IS BASED, TO 4.25 FF. IF THE LATTER RATE CONTINUES, YOUNG ESTIMATED THE RESULTANT SHORT FALL FOR THE 1975-76 BIENNIUM AT \$16.9 MILLION. (EXCHANGE RATE USED BY UNESCO FOR APRIL IS 4.20 FF.) (B) FURTHER, UNESCO IS CONFRONTED WITH 6 PER CENT INCREASE IN SALARIES FOR PROFESSIONAL CATEGORY PERSONNEL AND ABOVE, DUE TO UN SYSTEM-WIDE INCREASES, AS WELL AS INCREASED ALLOWANCES FOR DEPENDENTS AND ASSIGNMENT TRANSFERS WHICH TOGETHER WILL AMOUNT TO ABOUT \$4.3 MILLION. (C) FINALLY, INFLATION WHICH PROJECTED IN 18 C/5 ON 12 PER CENT ANNUAL RATE OF INCREASE IS RUNNING SIGNIFICANTLY HIGHER IN FRANCE--YOUNG ESTIMATED 15 - 17 PER CENT--WHERE MOST OF UNESCO'S EXPENDITURES ARE INCURRED. SHORT FALL RESULTING FROM INFLATION RANGES THEREFORE FROM ABOUT \$2.6 MILLION TO \$4.2 MILLION.

4. YOUNG SAID THAT RESORT TO APPROPRIATION RESERVE OF \$10.3 MILLION WILL BE NEEDED TO COVER BULK OF DOLLAR FLUCTUATION-INFLATIONARY COSTS. MOREOVER, HARSH AUSTERITY MEASURES TAKEN ALREADY ARE INTENDED TO COVER MOST OF INCREASED SALARY COSTS OF \$4.3 MILLION. SPECIFICALLY, FREEZE ALREADY DIRECTED BY M'BOW IN RELIMITED OFFICIAL USE

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CRUITMENT, PROMOTION AND CREATION OF NEW POSTS IS ESTIMATED TO YIELD \$1.5 MILLION. SAVINGS RESULTING FROM NON-ADJUSTMENT IN BUDGETARY ALLOCATIONS TO COVER DECLINE IN DOLLAR EXCHANGE RATE ARE EXPECTED TO YIELD ABOUT \$3.8 MILLION. HOWEVER, AS PENSION REMUNERATION FUND MUST BE AUGMENTED IN RELATION TO COST OF LIVING INCREASES, YOUNG SAID AN ADDITIONAL \$800,000 MAY HAVE TO BE FOUND BY JULY. HE NOTED THAT/ A FIVE PER CENT IN-

CREASE IN THE PENSION REMUNERATION FUND HAD GONE INTO  
EFFECT JANUARY 1 AND TWO MORE/ FIVE PER CENT INCREASES ARE  
PROBABLE BY JULY 1.

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P 080941Z APR 75  
FM AMEMBASSY PARIS  
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5. LOOKING AHEAD TO 1976, YOUNG SAID THAT SERIOUS  
PROBLEMS ARE POSSIBLE BECAUSE THERE IS NO PROVISION FOR  
SALARY INCREASES, INFLATIONARY IMPACT, OR REDUCED DOLLAR  
EXCHANGE RATE. IN 1976 THE ORGANIZATION MAY, THEREFORE,  
HAVE TO FIND AN ADDITIONAL \$8.5 MILLION.

6. SECRETARIAT PUBLIC LINE FOR THE MOMENT ACCORDING  
TO FOBES, IS THAT THE ORGANIZATION CASH POSITION IS  
RELATIVELY SOUND IN THAT A MIX OF ADVANCE PAYMENTS BY  
MEMBER STATES' 1976 CONTRIBUTIONS, POSSIBLY DONATIONS  
TO SPECIAL FUNDS IN TRUST THAT WOULD RELIEVE PRESSURE  
ON REGULAR BUDGET RESOURCES AND, IN EXTREMIS, NON-  
INTEREST BEARING LOANS COULD CARRY THE ORGANIZATION  
THROUGH TO THE END OF 1975 OR EARLY 1976.

7. COMMENT: DIRECTOR GENERAL M'BOW HAS TAKEN PUBLIC  
POSITION THAT ORGANIZATION IS IN GOOD CASH POSITION SO

FAR AND, AS REFLECTED IN FOBES' REMARKS, THAT THE ORGANIZATION CAN GET THROUGH REMAINDER OF THE YEAR. ABOVE INFORMATION POINTS UP READINESS OF NEW UNESCO TOP LEADERSHIP TO TAKE THE KIND OF HARSH BELT-TIGHTENING MEASURES THAT U.S. HAS TRADITIONALLY URGED LIMITED OFFICIAL USE

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WHEN ORGANIZATION HAS BEEN CONFRONTED IN THE PAST BY DOLLAR FLUCTUATION AND INFLATIONARY PRESSURES.

8. HOWEVER, SECRETARIAT IS CLEARLY WORRIED BY CONTINUED LOW DOLLAR EXCHANGE RATE WHICH, COMBINED WITH NON-PAYMENT OF U.S. CONTRIBUTION, WOULD REQUIRE UNESCO TO LOOK FOR SUBSTANTIAL SUMS BY NO LATER THAN EARLY 1976. AS DEPARTMENT AWARE, THERE IS STRONG LIKELIHOOD THAT NON-INTEREST BEARING LOANS WOULD BE FORTHCOMING FROM MEMBER STATES--ARABS AND SOVIET BLOC, AS WELL AS CHINESE --IF M'BOW OBLIGED TO SEEK THEM.  
RUSH

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